

TRANSMITTAL SLIP		DATE
TO: NIO/Econ <i>[initials]</i>		
ROOM NO.	BUILDING	
REMARKS:		
FROM: c/nic		
ROOM NO.	BUILDING	EXTENSION

26 February 1982

Norway: Potential Alternative to Soviet Gas

Norway's gas potential is huge -- proven reserves are already almost 100 trillion cubic feet (15 years of continental West European consumption). The Norwegians believe they have considerably more. However, most of this gas is technically difficult to develop or is in remote locations. As a result development is planned to take place over a long period of time and will be costly relative to Soviet and Dutch gas. The Norwegians want to receive a price comparable to crude oil (currently around \$5.50 per million Btu which they received from the Europeans for some gas last year). This contrasts with the \$4.75 paid for Soviet gas.

Norwegian policy has been to develop the gas slowly to avoid a boom and bust cycle in the industry and because they have already become relatively wealthy from petroleum. Their attitude, however, is changing and might be changed further:

- Prospective oil revenues are falling
- The present government is less concerned about limiting petroleum sector development
- Worries are growing that Soviet gas may preempt the market and leave Norway with huge quantities of unmarketable gas

The United Kingdom could play a role by buying more Norwegian gas and also by participating in a triangular deal in which the UK would receive more Norwegian gas and ship some of its own to the continent on a no net export basis.

The demand situation in Europe should permit the entry of additional Norwegian gas after 1990 and perhaps earlier.

The following elements might persuade Norway to move faster.

- Favorable economics including a premium over the price paid to the Soviets
- Assistance in financing capital intensive projects
- Assurances of a viable market for the gas over a long period
- Strong encouragement on political and security grounds by the United States and the European customers

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